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21 December 1955

MEMORANDUM FOR: Members of EDAC Executive Committee

SUBJECT: Transmittal of "Comparison of Relative Costs of Production in the Bloc and the West for Selected Commodity Categories on the International Export Control Lists"

1. Attached for your information is a copy of a paper on "Comparison of Relative Costs of Production in the Bloc and the West for Selected Commodity Categories on the International Export Control Lists". This paper was produced in CIA in compliance with a request from the CFEF East-West Trade Drafting Group for the Foreign Minister's Conference at Geneva. The paper is, in effect, a supplement to the discussion of the "Relative Cost Criterion for Selecting Specific Exports to be Controlled" in Staff Study No. 1 appended to the CFEF Task Force on Economic Defense Policy, submitted to the Council on Foreign Economic Policy last July. Research now in progress within CIA should result in more extensive and firmer results in the future.

2. It may be noted that the relative cost criterion involves an application of the principle of comparative advantage in international trade theory. For strategic and other reasons, the Bloc sometimes pursues trade policies which run counter to the principle of comparative advantage. For this reason, and because judgments in this field must be arrived at on the basis of information which

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in many cases is more-or-less inadequate, the conclusions are not a formula which can be applied automatically in the selection of commodities for export control. However, insofar as other considerations permit, it is desirable that commodities be chosen for control with the purpose of maximizing costs to the Bloc for each dollar of denied imports. For this purpose the relative cost concept, where available information provides relatively reliable results, is a most useful tool of analysis.

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